4-2008

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Published: April 03, 2008 in Knowledge@SMU

Small and Medium Enterprises (SMEs) need to realise that being small is only an interim stage on the way to becoming larger enterprises. How SMEs can grow is to leverage on innovation opportunities to transition to that next stage.

“Small organisations have to generate new innovations in order to grow big. Innovation is the key engine for an SME’s growth,” said Singapore Management University information systems professor Desai Arcot Narasimhalu, speaking on "Innovation -- the tracks that can transform SMEs into global players" at the UOB-SMU Entrepreneurship Alliance Centre last month.

Innovation isn’t necessary only for small companies. To stay on top, large companies need to innovate too. Desai pointed out that nearly 60% of Fortune 500 companies disappeared from the list between 1975 and 1995. A key reason for the high attrition rate was that those companies lacked sustained innovation, he explained.

He cited the example of post offices to highlight the dangers of not innovating. Post offices had lost a significant amount of potential revenue because they failed to create delivery innovations such as same-day deliveries and shipments tracking, features successfully adopted by worldwide couriers such as DHL and Fedex. “If you think your business is good, think again. Remember the post office,” he warned.

However, innovation is not just about coming up with new products. It is about coming up with solutions to the problems of customers, said Desai. By inventing the assembly line production method for making cars, Henry Ford demonstrated that he was a great innovator. However, Ford’s inflexibility (“You can have any colour, as long as it’s black”) created the opportunity for General Motors to eventually overtake Ford by producing more models in different shapes and colours. General Motors created innovations wanted by the customers.

How to Innovate?

Companies interested in innovating can use several models to come up with innovative solutions, he said. The first model takes an existing product to produce an incrementally better one. This is called a sustaining or incremental innovation.

An existing product can be improved using any one of eight options: adding a feature, removing a feature, combining two products into one, separating one product into two, substituting components or materials, reducing component size, embedding the product into another or adding complementary functions.

Cameras offer an excellent example of this matrix in action. Some cameras have evolved to become more complex (with more features) while other cameras lost features (with point-and-shoot versions). Many cameras exist on their own while many other cameras exist as part of the mobile phone (combining two products). This diversity demonstrates the many possibilities available for creating innovation in an existing market.

Another model companies can use is the ‘Blue Ocean Strategy’. This is a strategy for finding new market segments that are not currently occupied by other companies. By identifying the key needs of a targeted customer and plotting out where existing products sit, companies can find Blue Ocean innovation opportunity. This is achieved by offering new value to customers that is not offered by existing products.

This was the strategy used by hotel chain Accor to develop its Formule 1 brand of budget business hotels, said Desai. Accor found that there was a group of customers who wanted the hygiene and bed quality of a two star hotel but did not have the budget for it. By cutting down on eating facilities and hotel aesthetics, Accor was able to develop hotels that were more expensive than one star hotels, but cheaper than two star hotels to meet the needs of this customer segment.

This model involves matching the steps in a buyer experience cycle with different utility levers. The buyer experience cycle begins with purchasing followed by delivery, use, supplements, maintenance and disposal. The utility levers are productivity, simplicity, convenience, risk, image and environmental friendliness. By using this matrix, companies can locate an area that is ripe for innovation.

The Innovation Cube

However, while these models can help companies identify opportunities for innovation, they does not guarantee that every innovation will be successful. Desai explained how companies could use his model, the Innovation Cube, to check whether an innovation has the potential for success.

Desai designed the Innovation Cube based on his years of experience in incubating technology start-ups while working at Kent Ridge Digital Labs, Singapore. The Innovation Cube is a conceptual framework for understanding what, when and how to create innovations. To begin with, it is important to note that any innovation has to meet either customers' needs or wants. Desai describes needs and wants as the drivers of successful innovations as an innovation that does not address either is unlikely to find lasting success. Any innovation addressing a stronger need or want desired by a large number of people stands a higher chance of success. Desai calls the wants or needs Innovation Drivers.

However, he noticed that many innovations that met either a strong want or need still failed. This prompted him to look for additional features that defined successful innovations. Successful innovations additionally require triggers, specifically, a market shift and the required technology. Desai noted that innovators have to ensure that both the technology and markets are ready.

"Imagine a situation where the market is ready but the required technology is not available," he said. "When the technology becomes available, it triggers a successful innovation. Likewise, imagine a situation when a technology is available but the market is not ready. When the market shifts, it creates an opportunity to launch a successful innovation."

Innovators should therefore keep track of the triggers, whether market or technology shifts, required for creating their next innovation. Since either shift could trigger an innovation, he labels them Innovation Triggers. Desai noted that some innovations failed although they successfully met the requirements stated by Innovation Drivers and Innovation Triggers. This prompted him to look for additional attributes that made innovations successful.

He found that for successful innovations to define and dominate new markets, they had to be delivered at the right price point and had to meet demand rapidly. "I call them Innovation Enablers," he said. If an innovator fails to put in place measures required to dominate the market, substitutes will soon come in and erode the opportunity.

Innovation vs Efficiency

Companies that want to innovate also need to create a culture of innovation within the organisation. Too many companies adopt certifications such as Six Sigma or ISO 9001 which put in place standard processes for people to follow. While they help in achieving operational efficiency, these certification systems often end up stifling innovation. "If you require people to follow rules all the time, you cannot expect them to create innovations. It is by responsibly breaking some rules that you are able to think out of the box and innovate," said Desai. All companies face the tough balancing act between improving operational efficiencies and providing an environment and culture for creating innovations. Companies that find the magic balancing formula will certainly emerge as winners in the innovation game.

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